

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 L-03 FRB-03 OMB-01

ITC-01 SP-02 AGRE-00 AID-05 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 OIC-02 SIL-01 STR-04

TRSE-00 CEA-01 USIE-00 INRE-00 SS-15 SSO-00 /083 W

-----191723Z 010340 /50

O 191528Z APR 77

FM USMISSION GENEVA

TO SECSTATE WASHDC IMMEDIATE 6648

INFO USMISSION EC BRUSSELS IMMEDIATE

C O N F I D E N T I A L GENEVA 2869

DEPT FOR COOPER FROM KATZ

E.O.11652: GDS

TAGS: UNCTAD, ETRD

SUBJECT: U.S. - EC TALKS ON SUGAR AND INTERNATIONAL SUGAR
AGREEMENT (ISA) NEGOTIATIONS

1. ISSUE: EC OCCUPIES AMBIGUOUS AND UNCERTAIN ROLE IN
NEGOTIATIONS FOR INTERNATIONAL SUGAR AGREEMENT. THEY
DO NOT HAVE NEGOTIATION MANDATE, EC COUNCIL HAVING FAILED
TO REACH AGREEMENT AT PREVIOUS SESSION. NEXT OPPORTUNITY
WILL NOT OCCUR UNTIL MAY 5, HALF WAY THROUGH ISA NEGOTIA-
TING CONFERENCE. SUBSTANCE OF PROBLEM IS UNWILLINGNESS
CERTAIN EC MEMBERS (FRANCE AND BELGIUM) TO ACCEPT ISA OF TYPE
FAVORED BY MOST PARTICIPANTS, I.E. AGREEMENT BASED ON
EXPORT QUOTAS. UNCERTAINTY ABOUT EC POSITION IS COM-
PLICATING FACTOR IN CURRENT NEGOTIATIONS ALTHOUGH GENERAL
REACTION IS TO IGNORE EC AND ATTEMPT NEGOTIATE AROUND
THEM.

2. BACKGROUND: IN EIGHTEEN MONTHS OF WORKING GROUP
MEETINGS PRECEDING CURRENT CONFERENCE, CONCLUSION
REACHED BY OVERWHELMING NUMBER OF COUNTRIES WAS THAT
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NEW ISA MUST BE FUNDAMENTALLY BASED ON EXPORT QUOTAS.
EC HAS INSISTED ON SYSTEM BASED ON STOCKS. BECAUSE OF
HIGH SUPPORT PRICES FOR DOMESTIC PRODUCTION AND
REALIZATION REST OF WORLD WOULD NOT ACCEPT EXPORT QUOTA
FOR EC AT A LEVEL EC WOULD DEMAND, EC STOCK PROPOSAL IN
EFFECT SHIFTS BURDEN OF ADJUSTMENT AWAY FROM ITSELF TO
OTHER PRODUCERS. US CONCEPT OF AGREEMENT COMBINES

EXPORT QUOTAS WITH STOCKS IN ORDER TO ATTAIN BETTER FUNCTIONING AGREEMENT WITH GREATER PROTECTION OF UPPER PRICE OBJECTIVE. WHILE OUR PROPOSAL IS OSTENSIBLY CLOSER TO EC VIEW, WE COULD NOT CONTEMPLATE SIGNIFICANT EXPORT QUOTA FOR EC WHILE OTHER EXPORTERS REQUIRED TO BUILD STOCKS, SINCE OTHER EXPORTERS, MOSTLY LDCS, WOULD IN EFFECT BE REQUIRED TO PAY FOR LACK OF PRODUCTION DISCIPLINE BY EC. EC EXPORT ENTITLEMENT OF ABOUT 350,000 TONS REPRESENTING AVERAGE OF PAST FIVE YEARS MIGHT BE ACCEPTABLE OUTCOME TO OTHER EXPORTERS BUT EC UNLIKELY ACCEPT SUCH RESTRAINT. ONE ALTERNATIVE WOULD BE TO LEAVE EC OUTSIDE AGREEMENT AND SEEK TO BLOCK THEIR EXPORTS BY REQUIRING IMPORTING MEMBERS TO RESTRICT SEVERELY THEIR IMPORTS FROM NON-MEMBERS. NON PARTICIPATION BY EC, HOWEVER, WOULD BE DISADVANTAGEOUS SINCE MARKET WOULD DOUBT EFFECTIVENESS OF SUCH AN AGREEMENT AND EC WOULD NOT PARTICIPATE IN STOCK FINANCING PROPOSAL WE DESIRE TO PURSUE FOR CONSUMER BENEFIT.

3. SUGGESTED TALKING POINTS

A) WE ARE CONCERNED ABOUT EC ROLE IN THE NEGOTIATION WHICH THREATENS TO COMPLICATE AND DISRUPT CONFERENCE.

B) IF WE CANNOT REACH AGREEMENT ON SUGAR WHICH IS A HOMOGENEOUS COMMODITY WITH A RELATIVELY SIMPLE MARKET STRUCTURE, HOW CAN WE MAINTAIN CREDIBILITY FOR THE G-8 POSITION ON COMMODITIES GENERALLY IN CIEC.

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C) EC POSITION ON SUGAR IS UNREASONABLE SINCE IT IS BASED ON HIGH SUPPOER PRICE WITHOUT ANY PRODUCTION DISCIPLINE AND SHIFTS THE BURDEN OF ADJUSTMENT TO OTHER PRODUCERS, MOST OF WHOM ARE LDCS.

D) WHILE EC IMPORTS 1.3 MILLION TONS SUGAR FROM ACP COUNTRIES AT PREFERENTIAL PRICE, IT RE-EXPORTS EQUIVALENT AMOUNT PLUS MORE TO WOULD MARKET AT DUMPED PRICE WHICH LESS THAN 50 PERCENT ITS DOMESTIC PRICE.

E) WE AREPROPOSING A NEW ISA BASED ON STOCKS AS WELL AS EXPORT QUOTAS WHICH WE HOPE WOULD COMMEND ITSELF TO EC. OUR APPROACH WOULD HOWEVER REQUIRE EC TO ACCEPT SOME DISCIPLINE PARTICULARLY IN PERIODS OF SURPLUS. WE ARE PREPARED TO CONSIDER CONTRIBUTING TO FINANCING OF STOCKS AND HOPE THE EC WILL TOO.

F) WE URGE THE EC TO RECONSIDER ITS POSITION AND TO BEGIN TO NEGOTIATE SERIOUSLY IN GENEVA.

G) FAILURE TO NEGOTIATE AN AGREEMENT WOULD NOT AUGER
WELL FOR OUTCOME OF CIEC MINISTERIAL WHICH BEGINS THE
WEEK FOLLOWING THE SUGAR CONFERENCE'S CONCLUSION.SORENSEN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, REGIONAL ORGANIZATIONS, NEGOTIATIONS, TRADE AGREEMENTS, BRIEFING MATERIALS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 19-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977GENEVA02869
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770135-1256
Format: TEL
From: GENEVA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770444/aaaablol.tel
Line Count: 121
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6cf2b4a2-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2767557
Secure: OPEN
Status: NATIVE
Subject: U.S. - EC TALKS ON SUGAR AND INTERNATIONAL SUGAR AGREEMENT (ISA) NEGOTIATIONS
TAGS: ETRD, UNCTAD, EEC, ISO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6cf2b4a2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009